No. 16-1011

In the
Supreme Court of the United States

WESTERNGECO LLC,
Petitioner,

v.

ION GEOPHYSICAL CORPORATION,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* HOUSTON INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

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INTEREST OF *AMICUS CURIAE*

The Houston Intellectual Property Law Association ("HIPLA") is an association of hundreds of lawyers and other professionals who predominately work in the Houston, Texas, area (*see generally* www.hipla.org).[1] The practice of most of the HIPLA membership relates in substantial part to the field of intellectual property law. Founded in 1961, HIPLA is one of the largest associations of intellectual property practitioners in the United States. HIPLA represents the interests of its members and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law. HIPLA has no stake in any of the parties to this litigation or in the outcome of this litigation.

HIPLA believes this amicus brief will assist the Court in deciding this important case involving U.S. patent law. HIPLA takes no position as to the

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[1] No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae* or its counsel made a monetary contribution to its preparation or submission. The parties have consented to the filing of this brief in both Petitioner and Respondent providing consents to the filing of *amicus curiae* briefs in support of either party or neither party in docket entries dated Feb. 2, 2018 and Feb. 1, 2018, respectively.

merits of the case before the Court. HIPLA respectfully wishes to draw the Court's attention to some of the Court's applicable precedent, underlying policy issues, and the potential impact of its decision.

SUMMARY OF THE ARGUMENT

In *WesternGeco L.L.C. v. ION Geophysical Corp.*, the Federal Circuit held that, notwithstanding the fact that § 271(f) of the Patent Act has extraterritorial effect, lost profit damages for patent infringement cannot be based on extraterritorial conduct. 791 F.3d 1340, 1351 (Fed. Cir. 2015); *vacated*, 136 S. Ct. 2486 (2016); *reinstated in relevant part*, 837 F.3d 1358 (Fed. Cir. 2016). The conduct giving rise to the damages at issue occurred on the high seas, where no other country's law directly applies. *Id.* at 1349.

The Federal Circuit failed to properly apply the Supreme Court's two-step test under *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090, 2101 (2016). Under that test, § 271(f) clearly reaches the extraterritorial conduct at issue in this case. Section 284 of the Patent Act is coextensive with the statute's substantive provisions, providing damages whenever a patent has been infringed. *See* 35 U.S.C. § 284. Consequently, to the extent that the test must be applied separately to damages provisions, § 284 also meets the test.

The Federal Circuit's *WesternGeco* rule creates a gap in patent protection. No country's patent law directly applies on the high seas, and it is unclear whether the law of the flag would allow another

country's law to reach the conduct at issue in this case. As a result, if an infringer exclusively supplies components from the United States that are only used on the high seas, it is possible that no country's patent law would reach the conduct. *See WesternGeco*, 791 F.3d at 1360–61 (Wallach dissent-in-part).

The Federal Circuit's approach to extraterritoriality is also in tension with trademark and copyright law. Admittedly, patent law is far more territorial than other areas of intellectual property. Nevertheless, cases that involve conduct on the high seas do not appear to raise prescriptive comity concerns, making an absolute prohibition against foreign damages inappropriate. *See* Sapna Kumar, *Patent Damages Without Borders*, 25 Tex. Intell. Prop. L. J. 73, 112 (2017).

The Federal Circuit's rule is additionally contrary to traditional common-law principles of compensatory damages in tort law. An award of lost profits damages for extraterritorial conduct arising from infringement under § 271(f) should be limited by principles of proximate causation, not by the foreign nature of the losses. District courts should be allowed discretion in deciding availability of extraterritorial damages based on proximate cause principles such as the foreseeability of those losses

resulting from domestic acts of infringement. By cabining the district court's discretion, the Federal Circuit's bright-line rule denies a prevailing patentee "damages adequate to compensate for the infringement" under 35 U.S.C. § 284, weakens patent rights, and negatively impacts innovation.

ARGUMENT

I. Under the Supreme Court's Two-Step Test in *RJR Nabisco, Inc. v. European Community*, 35 U.S.C. § 271(f) Applies Extraterritorially

In *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090, 2101 (2016), this Court provided a two-step framework for analyzing extraterritoriality issues for federal statutes. Under step one, a court asks "whether the presumption against extraterritoriality has been rebutted—that is, whether the statute gives a clear, affirmative indication that it applies extraterritorially." *Id.* If the statute is not extraterritorial under the first step, the court moves to step two and asks "whether the case involves a domestic application of the statute," and looks to the statute's focus. *Id.* In analyzing extraterritoriality, the court must also consider "the *extent* of the statutory exception." *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 455–56 (2007) (emphasis in original).

In this section, HIPLA discusses why §§ 271(f) and 284 of the Patent Act each pass both steps and apply to extraterritorial conduct.

A. Step One is Met for § 271(f)

Section 271(f) provides clear indication that Congress intended for the provision to apply extraterritorially. Congress added § 271(f) to the Patent Act in response to *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), in which the Supreme Court held that § 271(a) was not infringed by extraterritorial activity. *See* S. REP. NO. 98-663, at 2–3 (1984) (extending the Patent Act "so that when components are supplied for assembly abroad to circumvent a patent, the situation will be treated the same as when the invention is 'made' or 'sold' in the United States").

The Federal Circuit erroneously maintained that § 271(f) was a "limited exception," observing that in *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), this Court interpreted § 271(f) narrowly. *WesternGeco L.L.C. v. ION Geophysical Corp.*, 791 F.3d 1340, 1351 (Fed. Cir. 2015); *vacated*, 136 S. Ct. 2486 (2016); *reinstated in relevant part*, 837 F.3d 1358 (Fed. Cir. 2016). This case, however, can be distinguished from *Microsoft*. In *Microsoft*, when the Court was faced with a choice of a broad interpretation of "component" that extended the

extraterritorial reach of § 271(f) versus a narrow one that did not, it chose the narrow reading. *Microsoft Corp.*, 550 U.S. at 454–55. In *WesternGeco*, by contrast, there was no ambiguous statutory language and the Federal Circuit affirmed that § 271(f) had been violated. *WesternGeco L.L.C.*, 791 F.3d at 1348–49. Consequently, the "limited exception" concerns expressed in *Microsoft* for § 271(f) are not applicable to this case.

The Federal Circuit's reliance on § 271(a) is also misplaced. It held that under *Power Integrations, Inc. v. Fairchild Semiconductor Int'l Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), extraterritorial damages are prohibited. *WesternGeco L.L.C.*, 791 F.3d at 1351. It further maintained that because liability attaches in the United States under § 271(f), damages should be treated the same as under § 271(a). *Id.*

However, the Federal Circuit's reasoning contravenes the clear intent of Congress. As this Court noted in *Deepsouth Packing*, § 271(a) has strict territorial limits, and Congress did not intend for it to "operate beyond the limits of the United States." *Deepsouth Packing*, 406 U.S. at 532. By contrast, Congress created § 271(f) to "fill a gap in the enforceability of patent rights." *Life Techs. Corp. v. Promega Corp.*, 137 S. Ct. 734, 743 (2017). In the Report from the Committee on the Judiciary

regarding the Patent Law Amendments of 1984, Congress stressed that "[p]ermitting the subterfuge" under *Deepsouth* "weakens confidence in patents among businesses and investors" and saw that amendments were needed "to help maintain a climate in the United States conductive to invention, innovation, and investment." S. REP. NO. 98-663, at 3. Given the breadth of this language supporting § 271(f), it is hard to imagine that Congress intended to leave a damages gap.

Courts should not artificially restrict damages under the Patent Act. In *General Motors Corp. v. Devex Corp.*, this Court observed that "[w]hen Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly." 461 U.S. 648, 653 (1983). The Court also recently emphasized in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, in the context of enhanced damages, that the Federal Circuit should not "unduly confine[] the ability of district courts to exercise the discretion conferred on them." 136 S. Ct. 1923, 1935 (2016). In passing § 284, "Congress sought to ensure that the patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement." *General Motors Corp.*, 461 U.S. at 654–55. Accordingly, the Patent Act should be interpreted to favor fully

compensating patent holders once infringement has been proven under § 271.

B. Step Two is Met for § 271(f)

Step two is also clearly met. Section 271(f) involves a multiterritorial, not extraterritorial, application of U.S. law. *See* Sapna Kumar, *Patent Damages Without Borders*, 25 Tex. Intell. Prop. L. J. 73, 102–103 (2017). Section 271(f)'s focus is on components exported from the United States with the intention that they be assembled into U.S.-patented devices. As the *WesternGeco* court observed, liability under § 271(f) "attaches in the United States." *WesternGeco*, 791 F.3d at 1351. Consequently, in cases like *WesternGeco*, there is a permissible domestic application—preventing the export of components from the United States—notwithstanding the fact that other conduct occurred abroad.

The presumption against extraterritoriality does not prohibit courts from looking to foreign activities in other areas of U.S. patent law. For example, under 35 U.S.C. § 102(a), foreign publications can serve as invalidating prior art. *See* 35 U.S.C. § 102(a) (2012). Likewise, this Court has held that the sale of patented goods exhausts a patentee's domestic patent rights. *See Impression Prods. v. Lexmark Int'l Inc.*, 137 S. Ct. 1523 (2017).

C. The Two-Step Test for § 284

In *RJR Nabisco*, the unanimous Court noted that the two-step test applies "regardless of whether the statute in question regulates conduct, affords relief, or merely confers jurisdiction." *RJR Nabisco*, 136 S. Ct. at 2101. A four-Justice majority held that the presumption against extraterritoriality can apply more than once to the same statute. *Id.* at 2106. However, the Court did not speak to whether the test applies again to a damages provision once liability has been established.

In *RJR Nabisco*, this Court observed that the private right of action under § 1964(c) of the Racketeer Influenced and Corrupt Organizations Act (RICO) lacks any explicit extraterritorial reach, and that § 1964(c) is not coextensive with RICO's substantive provisions. *Id.* at 2108. It maintained that "by cabining RICO's private cause of action to particular kinds of injury," that "Congress signaled that the civil remedy is not coextensive with § 1962's substantive prohibitions." *Id.*

Damages under § 284, by contrast, are available for any kind of patent infringement. *See* 35 U.S.C. § 284. During the passage of the 1952 Patent Act, the House Committee on Patents noted that the Patent Act's purpose was "to make the basis of recovery in patent-infringement suits general

damages, that is, any damages the complainant can prove. . ." H.R. REP. NO. 1587, at 1 (1946); *see also,* S. REP. 79-103 (1946), at 2 (adopting the same language).

The argument for restricting § 1964(c)'s reach does not apply to § 284. It would be absurd for courts to require Congress to revise a coextensive damages provision every time Congress explicitly expands substantive law extraterritorially. Moreover, in the case of § 284, Congress would have had no reason to do this, given that at the time of passage for §§ 284 and 271(f), there was no indication that the presumption against extraterritoriality might apply to a damages provision. *See* Kumar, 25 Tex. Intell. Prop. L. J. at 79–81 (discussing the presumption against extraterritoriality's revival and expansion beginning in the 1990s).

II. The Federal Circuit's Bright-Line Rule Restricts Patent Owners from Recovering Damages When There is No Other Law to Apply

The Federal Circuit's decision leaves a gap in patent protection when infringement occurs on the high seas. Under the United Nations Convention on the Law of Seas (UNCLOS), a vessel flying under a state's flag is subject to that state's exclusive jurisdiction on the high seas. However, UNCLOS is

merely advisory in the United States because Congress never ratified it. *See* Elizabeth I. Winston, *Patent Boundaries*, 87 Temp. L. Rev. 501, 505 (2015). Under federal common law, the law of the flag only "governs the internal affairs of a ship." *McCulloch v. Sociedad Nacional De Marineros De Hond.*, 372 U.S. 10, 21 (1963).

It is uncertain whether the law of the flag would be applicable in cases like *WesternGeco*. The doctrine generally applies to conduct occurring on a vessel, not damages resulting from conduct in the United States, and no case appears to apply it to damages. Moreover, it is wholly unclear whether other countries would apply their respective patent laws to cases involving infringement on vessels flying their flags.

Consequently, as Judge Wallach observed in *WesternGeco*, if an infringer exclusively supplies components from one country that are only used on the high seas, "it may be that no country's patent laws reach the conduct occurring in international waters absent a provision such as § 271(f)." *WesternGeco*, 791 F.3d at 1360–61 (Wallach dissent-in-part). There is no patent office on the high seas. If territorial laws cannot reach high seas infringement, then a gap exists in the global patent system.

In this regard, the Federal Circuit's holding allows mischief through the structuring of multiterritorial transactions. Potential infringers could seek to insulate themselves from infringement liability by structuring market transactions to include foreign activities. The bulk of the damages would then be beyond the reach of U.S. courts.

III. The Federal Circuit's Total Prohibition against Recovering Foreign Damages is in Tension with Other Intellectual Property Statutes

The Federal Circuit's complete prohibition on extraterritorial damages under § 271(f) is also in tension with the Lanham Act and Copyright Act. In this section, HIPLA discusses the extraterritorial application of these statutes and suggests that the Court permit damages from high seas activity.

In *Steele v. Bulova Watch Co.*, this Court considered whether a U.S. citizen petitioner's sales of counterfeit watches in Mexico were actionable under the Lanham Act. 344 U.S. 280 (1952). The Court maintained that "the United States is not debarred by any rule of international law from governing the conduct of [its] own citizens upon the high seas or even in foreign countries when the rights of other nations or their nationals are not infringed." *Id.* at 285.

The Court's decision, however, hinges on the fact that the Lanham Act is grounded in Congress's Commerce Clause powers. Section 1125 of the Lanham Act [False designations of origin, false descriptions, and dilution forbidden] prohibits "uses in commerce" of words, terms, or the like that can cause confusion, and under § 1127 [Construction and definitions; intent of chapter], "commerce" refers to "all commerce which may lawfully be regulated by Congress." 15 U.S.C. §§ 1125(1), 1127 (2012) Because Congress can lawfully regulate conduct of its own citizens outside the United States, the Court's broad extraterritorial application of the Lanham Act has statutory support. *See Steele*, 344 U.S. at 285–86 (observing that international law does not bar the United States "'from governing the conduct of its own citizens upon the high seas or even in foreign countries when the rights of other nations or their nationals are not infringed'" (quoting *Skiriotes v. State of Florida*, 313 U.S. 69 (1941)).

The Copyright Act contains no express extraterritorial language. Nevertheless, three courts of appeal have adopted the predicate act doctrine, in which an act of U.S. infringement that permits further infringement abroad can give rise to a claim for damages flowing from the foreign conduct. *See Tire Eng'g and Distrib., LLC v. Shandong Linglong Rubber Co., Ltd.*, 682 F.3d 292, 306 (4th Cir. 2012)

(per curium); *Los Angeles News Serv. v. Reuters Int'l, Ltd*, 149 F.3d 987, 992 (9th Cir. 1998); *Update Art, Inc. v. Modiin Publ'g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988).

The Court, however, should not apply the predicate act doctrine to patent law. Copyright law among nations is fairly uniform under the Berne Convention. *See* Daniel Gervais & Dashiell Renaud, *The Future of United States Copyright Formalities: Why We Should Prioritize Recordation, and How to do That*, 28 Berkeley Tech. L. J. 1459, 1471–74 (2013). By contrast, patent law is the most territorial of all intellectual property rights, making prescriptive comity concerns stronger compared to copyright law. *See* Kumar, 108 Tex. Intell. Prop. L. J. at 110. In the context of trademark law, this Court was mindful of the potential for comity concerns. In *Steele*, the Court emphasized the fact that Mexico had nullified the petitioner's Mexican registration of "Bulova," and that consequently, there was "no conflict which might afford petitioner a pretext that such relief would impugn foreign law." *Steele*, 344 U.S. at 289. *See also,* Timothy Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 Notre Dame L. Rev. 1745, 1787 (2017). Accordingly, in view of comity concerns, the Court should resist adopting a blanket approach for §§ 271(f) and 284.

However, the Court need not adopt the predicate act doctrine to allow for the recovery of high seas damages. As discussed in section II, no country's law directly applies for patent-related disputes on the high seas. Consequently, the Court can follow the reasoning of *Steele* and permit damages in cases like this one in which foreign law will not be impugned.

IV. The Federal Circuit's Decision is Contrary to an Application of Damages under a Proximate Cause Analysis in Tort Law

A claim for damages in a tort action is subject to the common-law requirement that loss be attributable to the proximate cause. *Bank of Am. Corp. v. City of Miami*, Fla., 137 S. Ct. 1296, 1299 (2017) (citing *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1390 (2014)). The proximate-cause analysis asks "whether the harm alleged has a sufficiently close connection to the conduct the statute prohibits." *Id.* The proper inquiry for a recovery of extraterritorial lost profits damages is whether the patentee's economic injury flows directly from the domestic infringement under § 271(f).

The Federal Circuit, for example, has limited damage awards in patent cases based on the principles of foreseeability. *See Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1546 (Fed. Cir. 1995)

(en banc) ("If a particular injury was or should have been reasonably foreseeable by an infringing competitor in the relevant market, broadly defined, that injury is generally compensable absent a persuasive reason to the contrary."). To recover lost profits damages, the patentee must prove with reasonable certainty that the infringement did in fact proximately cause the amount of lost profits sought. *Id.* at 1545; *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

The availability of extraterritorial damages for infringement under § 271(f) should likewise be governed by a similar foreseeability requirement. A patentee should not be entitled to foreign lost profits unless those damages are proximately caused by domestic acts resulting in infringement. *See WesternGeco*, 837 F.3d at 1368 (Wallach dissent-in-part) ("the appropriate measure of damages must bear some relation to the extent of the infringement in the United States"); *see also* Holbrook, 92 Notre Dame L. Rev., at 1792 (The foreseeability analysis should be the lever used to police an overreaching claim for lost profits damages). In cases where the relationship between domestic infringement and foreign lost profits is undercut by intervening causes, a patentee's right to recover such damages should be limited accordingly. Considerations

similar to those of the *Panduit* test, such as the infringer's capabilities abroad as well as the availability of alternatives to avoid infringement, could factor into the foreseeability of the lost profits damages. Undoubtedly, the proximate-cause inquiry is not easy to define and generally involves complex factual issues, but district courts have a great deal of experience applying it, and there is a wealth of precedent for them to draw upon in doing so. *Lexmark*, 134 S. Ct. at 1390. District courts must be afforded ample discretion in resolving causation issues and determining an adequate measure of the patentee's lost profit damages.

The Federal Circuit's bright-line rule, in contrast, avoids the proximate-cause inquiry and deprives district courts of the discretion necessary to award a prevailing patentee "damages adequate to compensate for the infringement." 35 U.S.C. § 284. The argument that reasonable royalty damages adequately compensate the patentee for losses from the foreign uses of its patented invention, *WesternGeco L.L.C.*, 791 F.3d at 1351, ignores the reality that a patentee can generally recover more if it is able to establish lost profits, *see* Kumar, 25 Tex. Intell. Prop. L. J. at 90–91; Mark A. Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 Wm. & Mary L. Rev. 655, 661 (2009)

(observing that "patent damages tend to be greater in lost profits cases than in reasonable royalty cases"). Limiting recovery to a reasonable royalty deprives the patentee of "full compensation for 'any damages' he suffered as a result of the infringement." *See General Motors Corp.*, 461 U.S. at 654–55. The Federal Circuit's prohibition on lost profits damages therefore risks devaluing United States patents and having the unintended consequence of impeding innovation.

CONCLUSION

HIPLA respectfully asks this Court to rule that that lost profits arising from prohibited combinations occurring outside of the United States are not categorically unavailable in cases where patent infringement is proven under 35 U.S.C. § 271(f).

Respectfully submitted,

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